

VZCZCXRO0001
RR RUEHCN RUEHGH RUEHVC
DE RUEHGZ #2171/01 3100331
ZNR UUUUU ZZH
R 060331Z NOV 06
FM AMCONSUL GUANGZHOU
TO RUEHC/SECSTATE WASHDC 5345
INFO RUEHOO/CHINA POSTS COLLECTIVE
RUCPDO/USDOC WASHDC
RUEHC/DEPT OF LABOR WASHDC
RUEAIIA/CIA WASHDC
RUEKJCS/DIA WASHDC
RHHMUNA/HQ USPACOM HONOLULU HI

UNCLAS SECTION 01 OF 02 GUANGZHOU 032171

SIPDIS

SENSITIVE
SIPDIS

STATE FOR EAP/CM
STATE PASS USTR
USDOC FOR 4420/ITA/MAC/MCQUEEN
USPACOM FOR FPA

E.O. 12958: N/A

TAGS: [ECON](#) [ELAB](#) [ETRD](#) [CH](#)

SUBJECT: Guangdong Real Faith Enterprises Group: Exporting
in Bad Faith?

(U) This message is Sensitive But Unclassified. Please
handle accordingly.

[1](#)1. (SBU) SUMMARY: Guangdong Real Faith Enterprises Group,
like many of the large, Chinese-owned, general
manufacturing conglomerates in the Pearl River Delta, takes
advantage of low labor costs, domestic suppliers, proximity
to high-volume shipping hubs, and a ready supply of capital
from Chinese and Taiwanese investors to export inexpensive
products to Asian, European, and U.S. markets. Real
Faith's real estate companies are its most profitable. The
chairman of Real Faith's board said that the USG is
investigating her conglomerate for possible "dumping" in
the U.S. market. This cable is one of a series of profiles
of Guangdong Province's top 100 companies. END SUMMARY.

Background

[1](#)2. (U) Congenoffs visited Real Faith's headquarters and one
of its factories, Pingzhou Electronics, located in Foshan
in the heart of the Pearl River Delta. The holding company
has total assets of over RMB 700 million (USD 87.5
million). According to Real Faith Board Chairman Liang
Fengyi and General Manager Pan Mingjian, the group's
holdings include companies that produce shoes, electronic
components, and toys, as well as several real estate
companies. The group's shoe companies are Sino-Taiwan
joint ventures that produce Taiwan brand shoes for export
to U.S., European, and Japanese markets. Its real estate
companies deal almost exclusively with residential
properties. Real Faith's 16 companies employ 15,000 people
and have over 200,000 square meters of factory floor space.
Real Faith exports its products to the United States,
Canada, Europe, Japan, Hong Kong, and Taiwan.

[1](#)3. (U) Real Faith first entered the international market in
[1](#)979. Real Faith now produces 70 percent of its products
for the overseas market. Company officials would not tell
us which country is their main market; however, they said
they are very interested in expanding their operations in
the United States and Canada.

Real Estate Will Stay Profitable

¶4. (SBU) While Real Faith executives eagerly informed us that all their businesses are profitable, the highest returns are from real estate holdings. When asked if the proposed government "cool down" measures in the real estate sector would affect business, Liang stated that she thought the measures would have little effect, especially in Guangdong where the real estate market is a matter of supply and demand. Liang does not believe that the government can cool down the market as long as the demand for housing is strong.

A USG Dumping Investigation

¶5. (SBU) When asked about Real Faith's biggest challenges doing business abroad, Liang said the company's furniture factory (Guanqiu Furniture Co., Ltd.) is currently under investigation by the USG for "dumping" its goods in the U.S. market. Liang believes the charges are unfounded and said Real Faith aroused suspicion simply because of the low prices of its goods, which are simply the result of low labor costs and relatively cheap raw materials. According to Liang, the company is caught in a no-win situation; consumers want their goods as inexpensively priced as possible. However in Real Faith's case, Liang continued, when the company sells their goods inexpensively, the USG gets suspicious. Nevertheless, Liang is optimistic about the outcome of this investigation. (Note: During the meeting, Liang spoke with someone named Mr. Zhang on her cell phone. Liang spoke quickly in Cantonese and asked if she needed to "be careful" in what she said to Congenoffs about the anti-dumping issue. Liang appeared to believe Congenoffs were there as part of the USG investigation. End Note.)

GUANGZHOU 00032171 002 OF 002

Other Challenges: Human Resources and Supply Costs

¶6. (U) Both Liang and Pan acknowledged that the company lacks employees with experience in international business. It mainly recruits domestically, but might look into hiring employees from overseas in the near future. While it is eager to expand its overseas base, Real Faith has no headquarters or major offices overseas.

¶7. (U) In the past, Real Faith purchased as much as 80 percent of its supplies from the United States. However, rising prices have forced the company to switch to domestic suppliers. Liang estimates that Real Faith now imports only 20 percent of its materials from the United States and the remaining 80 percent from domestic suppliers. Real Faith previously imported 80 percent of its oak wood for its furniture factories from the United States, but has cut such imports by 60 percent and is beginning to purchase lumber from mainland China. Real Faith also imports metal ware from Korea and Taiwan for its light fixture factory.

¶8. (U) The holding company sells electronic components to Toshiba and Sanyo, as well as numerous smaller companies. It sells medical equipment and furniture to small- and medium-sized enterprises in the United States, but not to major retailers.

Environmental Issues

¶9. (U) Real Faith was recently recognized by the Chinese government for its environmental protection efforts. When asked what measures the company had implemented, Liang merely stated that it abided by national standards and environmental protection laws. One of the managers of Real Faith's electronics factories, Pingzhou Electronics, informed Congenoffs that it had successfully passed the ISO 14000 environmental protection system certification.

Pingzhou Electronics Factory

¶10. (U) Pingzhou Electronics' annual production capacity is valued at RMB 1.4 billion (USD 175 million) per year. Its electronic components are used in computers, cell phones, and digital cameras. It supplies companies such as Motorola, Ericcson, Nokia, and TDK. The company recently started manufacturing electronic components for Toyota as well.

¶11. (SBU) The Pingzhou Electronics factory itself appeared clean and well-organized. It employs 6,000 workers, of whom 30 percent are from the Guangzhou area and 70 percent from rural areas. The employees Congenoffs saw were almost all young and female. When Congenoffs asked about the gender imbalance, the manager told us that young women are hired because "they are more careful then men" and better able to handle the tiny electronic components. The manager said the workers make approximately RMB 1,100 (USD 138) per month, working 8 hours a day. According to Liang, they get a 15-minute break every two hours and one hour for lunch. Some of the workers appeared to be minors, but the manager told Congenoffs that the factory did not hire anyone under 18, and that the average worker was 20 years old. She estimated that the turnover rate for the workers was only 4 percent. Real Faith provides dormitories for its employees who come from outside the Guangzhou area. According to Liang, the 15,000 employees at Real Faith have had unions for more than twenty years.

GOLDBERG